Malaysia Marine and Heavy Engineering (MMHE MK)

Transformation On Project Delivery Is Bearing Fruit

	BUY (Maintained)
Share Price	RM0.34
Target Price	RM0.50
Upside	+48.2%

Highlights

- **MMHE's transformation clearly shown in improved project delivery.** This can be observed across both segments of offshore (on-time deliveries of Kasawari, Jerun, Rosmari-Marjoram, etc) and marine repair (more vessels being delivered ahead of schedule and improved client satisfaction). We now assume a higher capex (aligning with 2025 levels) as the new five-year yard modernisation plan is crucial to improve asset integrity, especially key equipment like Level Luffing Cranes and Syncrolift.
- **Marine repair segment set to be the next growth driver.** We recently visited the yard with more focus on the marine repair segment. We concluded that if the improved project execution can be maintained alongside upgrades/ automation in yard facilities, MMHE should be able to sustain ship-repair works (which were at an all-time high) while taking on more conversion jobs, potentially three in 2026 (2025: one). The bullish marine outlook prompted us to retain BUY and target price of RM0.50.

Analysis

- **Renewed capex guidance.** We now assume higher capex, to be aligned with the 2025 level of RM162m (mostly replacement capex and investment in a specialised equipment for wind jobs). The capex will be channelled towards asset rejuvenation and upgrades, as well as technology adoption (like automation). We think these are necessary spending to retain Malaysia Marine and Heavy Engineering's (MMHE) leadership position in project delivery and ship repair, and ultimately meet its MHB30 targets on operating cash flow and dividend growth.
- **Offshore: Strong project delivery momentum will resume.** MMHE's transformation story as a regional leading O&G fabrication yard was shaped by milestones such as executing Malaysia's first deepwater project (FPSO Kikeh) by 2006, a full construction of a mega floating production system (Gumusut-Kakap) by 2013, and a platform for carbon capture and storage (CCS; Kasawari). 2023 marked MMHE's successful diversification overseas, and into green energy. The Kasawari CCS topsides and jackets had a sailaway by Apr 26, transitioning it to offshore installation and commissioning. This achievement prompted Petronas to accelerate the first carbon dioxide injection by 2027, vs previous estimates of 2029-30.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	3,609	1,976	1,715	1,685	1,805
EBITDA	219	197	182	193	207
Operating profit	141	116	99	107	118
Net profit (rep./act.)	121	103	90	97	109
Net profit (adj.)	112	103	90	97	109
EPS	7.6	6.4	5.6	6.0	6.8
PE	4.9	5.3	6.0	5.6	5.0
P/B	0.4	0.4	0.4	0.3	0.3
EV/EBITDA	8.0	7.5	6.1	6.4	8.0
Dividend yield	4.4	4.7	5.0	5.3	5.6
Net margin	3.4	5.2	5.3	5.7	6.0
Net debt/(cash) to equity	-	-	-	-	-
Interest cover	12.3	17.1	13.1	12.5	14.0
ROE	6.2	5.1	4.4	4.7	5.1
Consensus net profit	-		104	111	118
UOBKH/Consensus (x)	-		0.87	0.87	0.92-

Source: MMHE, Bloomberg, UOB Kay Hian

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Stock Data

GICS Sector	Energy
Bloomberg ticker	MMHE MK
Shares issued (m)	1,600
Market cap (RMm)	536.0
Market cap (US$m)	131.7
3-mth avg daily t'over (US$m)	2.0

Price Performance (%)

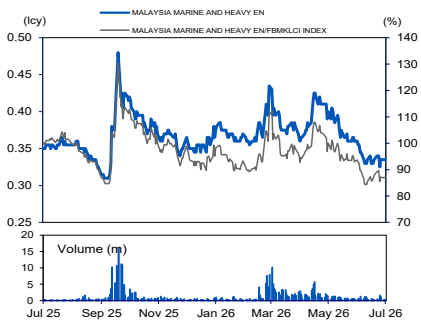
52-week high/low	RM0.49/RM0.31

1mth	3mth	6mth	1yr	YTD
(6.9)	(6.8)	(8.2)	(2.9)	(8.2)

Major Shareholders

	%
MISC Bhd	66.5
Technip SA	8.5

Price Chart



Source: Bloomberg

Company Description

Petronas-owned deepwater offshore oil and gas fabricator. The offshore/heavy engineering division is capable of performing engineering, procurement, construction, installation and commissioning (EPCIC) scope of works, for platforms like Central Processing Platform (CPP) and Wellhead Platform (WHP). The marine division is being recognised by Clarksons as a leading yard for liquefied natural gas carrier (LNGC) repairs

- **Marine repair: Positioning itself for the incoming floater super-cycle...** One key reason for the lacklustre marine earnings in 2017-22 was the several-year lull in floater conversion jobs. Typically, conversion jobs carry higher margins vs repeat ship-repair works, commensurate with their greater technical complexity and risks. Recently, MISC's offshore division and MMHE formed a JV named Floating Production Solution (FPS), as margin pressures in the conventional marine repair necessitate a move into capturing opportunities in the FPSO supercycle. We understand that for a job to qualify as a conversion project, it has to involve all three components namely decommissioning, repair and life extension, and topside conversion. MMHE is the only Malaysian yard capable of undertaking FPSO and FSO conversions. In 2025, it completed only one conversion – the conversion of Puteri Delima Satu LNGC into a floating storage unit (FSU).
- **…alongside a new JV income stream from FPS.** For 2026 however, the region's floater demand seems to experience a rejuvenation. We understand the two conversion projects secured by MISC ytd – the Floating Production Unit (FPU) Kelidang (Brunei) and FSO Santos (Papua New Guinea (PNG)) are projects secured under FPS, designed to offer competitive integrated floater solutions, including MMHE's yard offerings alongside MISC's financial proposition for a partial ownership and asset manager of the project. While this implies that 50% of the conversion project margins could now be channelled to MISC, MMHE will have a greater share of revenue from engineering to the installation stage. Operationally, the JV structure will be leaner with less bureaucracy to execute the project, and MMHE will also have full access to MISC's supply chain.
- **Marine repair: Higher number of LNGC and repeat ship-repair jobs is sustainable…** To recap, out of the 87 vessels delivered in 2025 (2024: 86), the number of the higher-margin LNG carriers (LNGC) completed was 26, which is another new high vs 16 in 2025. Only nine out of the 26 LNGC completed in 2025 are Malaysian, implying improved client diversification. Also, the LNGC jobs for both years are above the historical yearly average of 12-14 LNGC, marking a new era for MMHE since it ventured into LNGC drydocking in 2006 through MISC's LNGC Puteri Firuz and Seri Anggun. Although there is no material upgrade in dry dock capacities yoy, the key driver here is the improved project delivery
- **…as long as project delivery remains optimal alongside continuous yard modernisation (automation).** MMHE shared that 20 out of 87 vessels were delivered ahead of schedule in 2025, and the rest were delivered on schedule. Around 18 of those vessels received a "perfect 10" in the customer satisfaction index. This was a result of MMHE's upgrades and transformation. We also understand that these improvements were necessary to bring MMHE on par with leading regional yards, such as Seatrium and Chinese shipyards, in ship-repair. However, as conversion jobs are higher in 2026, there is a necessity for equipment upgrades/automation in order to match LNGC repair volumes yoy.

Valuation/Recommendation

- **Retain BUY and target price of RM0.50** at 0.5x 2026F P/B, in line with its recent average, while implying 10x 2026F PE. We believe the depressed valuation vs 0.7x P/B historically and regional peer average, conservatively priced in execution risks associated with mega fabrication projects, while overlooking the potential upside from the track record build-up in the renewables and marine divisions, the latter of which provides the group's more recurring earnings. Under MHB30, a "floor target price" based on dividend yield is RM0.40, where the implied target DPS appears to be 2.0 sen

Earnings Revision/Risk

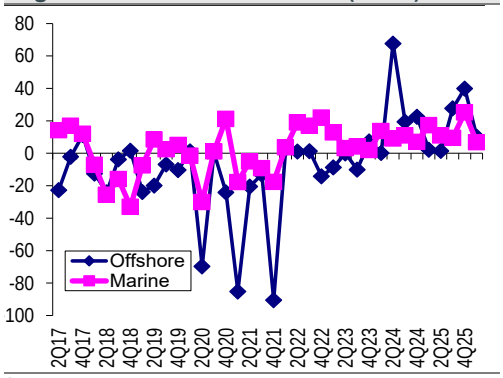
- **We changed our 2026-28 earnings forecasts by +5%/+14%/-10% respectively.** Despite higher depreciation forecasts, we assume higher workloads and profit margins to reflect our bullishness on MMHE's marine repair segment.

Areas Where Capex Will Be Spent

Facilities	Details
Level Luffing Crane (LLC)	May increase the number of LLCs from the current 16. Only 2-3 LLCs are of high capacity (80T), while most of the remainder are 30T, which will eventually be upgraded to 40T.
Syncrolift	Own one of the largest syncrolifts in the world with initial capacity of 13,000T. However due to ageing the effective lifting capacity eroded to 10,000T. In discussions with Syncrolift for upgrades
Dry Dock (DD)	Only DD2 and DD3 have automation features. Plans for blasting automation to be installed in DD3

Source: MMHE

Segmental EBIT Performance (RMm)



Source: MMHE

MHB30 Target

Metrics from 2022 baseline	2022	2030 target
Operating cash flow, 50% growth	RM136m	RM205m
- Of which, clean projects contribute 25% growth	-	RM51m
Emission intensity reduction, >20%, in tonnes CO2e/ mil man-hours	5.09	4.04
Dividend payout, >33% improvement	RM24m	RM32m
Implied DPS (sen)	1.5	2.0

Source: MISC, MMHE

New Floater Conversion Projects

FPU Kelidang	One of MISC's petroleum tanker is chosen for a conversion into a US$750m FPU for Brunei. Scheduled for 1H29 startup, the lease has a firm period of 12 years. No contract value was disclosed.
FSO Santos	To be converted from shuttle tanker Jasmine Knutsen, the floating storage and offloading (FSO) vessel for ExxonMobil is to be deployed at PNG LNG/Kutubu Pipeline system. Scheduled for 1H28 startup for a firm lease tenure of 15 years. No contract value was disclosed.
FPSO Limbayong (potential)	Upstream revealed in Mar 26 that the high-profile FPSO project, which Petronas had attempted multiple times to secure a leased FPSO since 2018 before it was last shelved by Petronas in Mar 23, appeared to be back on the drawing board. Upstream quote sources described that Petronas is directly negotiating with MISC, and the preferred design is to utilise a Sevan FPSO design (its cylindrical hull design eliminates the need for turret and swivel systems), most likely the FPSO Excalibur.

Source: Upstream

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	1,976	1,715	1,685	1,805
EBITDA	197	182	193	207
Deprec. & amort.	81	83	86	88
EBIT	116	99	107	118
Associate contributions	0	0	0	0
Net interest income/(expense)	(11)	(14)	(15)	(15)
Pre-tax profit	105	85	92	104
Tax	(2)	5	5	5
Minorities	0.0	0.0	0.0	0.0
Net profit	103	90	97	109
Net profit (adj.)	103	90	97	109

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	1,627	1,676	1,725	1,774
Other LT assets	274	270	261	247
Cash/ST investment	458	395	402	466
Other current assets	770	878	863	924
Total assets	3,133	3,222	3,253	3,414
ST debt	72	84	93	100
Other current liabilities	1,383	1,416	1,391	1,490
LT debt	187	169	148	125
Other LT liabilities	0	0	0	0
Shareholders' equity	1,489	1,552	1,620	1,698
Minority interest	1	1	1	1
Total liabilities & equity	3,133	3,222	3,253	3,414

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	173	102	176	238
Pre-tax profit	105	85	92	104
Tax	(2)	5	5	5
Deprec. & amort.	81	83	86	88
Associates	0	0	0	0
Working capital changes	(14)	(75)	(9)	37
Other operating cashflows	3	3	3	3
Investing	(151)	(150)	(150)	(150)
Capex (growth)	(165)	(150)	(150)	(150)
Investments				
Others	0	0	0	0
Financing	(3)	(15)	(20)	(24)
Dividend payments	(26)	(27)	(29)	(30)
10.6	0	0	0	0
Proceeds from borrowings	33	30	30	30
Loan repayment	(10)	(18)	(21)	(23)
Others/interest paid	0	0	0	0
Net cash inflow (outflow)	19	(63)	7	64
Beginning cash & cash equivalent	458	458	395	402
Changes due to forex impact	33	0	0	0
Ending cash & cash equivalent	509	395	402	466

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	10.0	10.6	11.4	11.4
Pre-tax margin	5.3	5.0	5.4	5.7
Net margin	5.2	5.3	5.7	6.0
ROA	3.4	1.3	1.8	1.6
ROE	5.1	4.4	4.7	5.1
Growth				
Turnover	100.4	136.3	153.5	119.9
EBITDA	(378.4)	96.3	45.5	74.3
Pre-tax profit	(1,133.6)	(166.8)	(134.9)	(157.2)
Net profit	(814.4)	258.9	97.1	210.1
Net profit (adj.)	(1,796.6)	n.a.	(50.5)	87.1
EPS	(1,796.6)	n.a.	(50.5)	87.1
Leverage				
Debt to total capital	19.5	18.4	17.3	16.2
Debt to equity	19.5	18.4	17.3	16.2
Net debt/(cash) to equity				(24.0)
Interest cover (x)	12.3	8.8	10.4	9.2

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